



ATTACHMENT I

Comparative and Benchmarking Information



Performance Benchmarking

The **METHODS** Project Team conducted an internal and external best practices and benchmarking study. Key statistics were gathered historically within the Office of Risk Management and from similar operations in surrounding states. This data played a key role as the project team prepared each increment of this Final Assessment Report. This report covers all of the key performance expectations the Office of Risk Management should adopt as its Critical Success Factors.

In preparing this report, performance expectations were divided into eight categories:

1. Waste, Fraud and Abuse
2. Actuarial Soundness
3. Premium Allocation
4. Staffing
5. Loss Cost Containment\Loss Prevention
6. Vendor Management
7. Information Systems

These categories were chosen by asking the following question: *"What are the major types of performance expectations that a Governor's task force, a Louisiana Legislative Committee and a group of professional risk managers would agree are most important?"* Examples of a risk management group would be the in-state members of the Risk and Insurance Management Society (RIMS) and the State Risk and Insurance Management Society (STRIMA). There are some overlaps and gaps but it is believed that by working through these categories, most if not all important performance benchmarks will be discovered.

In each of the following sections, reference is made to the current Office of Risk Management Strategic Plan when applicable.

Waste, Fraud and Abuse

Reference in Office of Risk Management Strategic Plan: *(no explicit reference found)*

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Summary: Performance benchmarks are generally qualitative. Threshold values for successful compliance are judgmental in nature. The Office of Risk Management does not appear to have any such measures in place and may fail in most tests today.

Preventing, discovering and responding to waste, fraud and abuse is uppermost in the minds of many, thus wit is addressed first focusing on claims dollars. The risk is high due to the large dollars involved in claims, the relatively high level of complexity of claims spending that than shield inappropriate or illegal acts, and the tendency of insurance claims operations for the need to move paper to take precedence over the need for quality controls. The target here is the misuse of Office of Risk Management dollars that rise well beyond inefficiencies and errors in decision-making and are instead unmistakable instances of gross misuse of funds. There are several widely endorsed and applied measures in the risk and insurance community to both deter and discover this misuse. They include the following:

- Sustained, convincing commitment of top executives on the issue, as reflected in speeches, memos, payroll stuffers, and such.
- No evidence of such activity by Office of Risk Management has been identified although some client agencies may have their own program
- Useful expenditure and outcome reports sent to parties who are financing the costs of claims who, in the case of the Office of Risk Management, would be the state agencies who are billed for premiums.
- As noted below in the section on information systems, the claims system used by the Office of Risk Management was designed for a time when claims operations were much simpler. The system's ability to provide standard and on-quest reports by agencies is severely limited. As a result, the capacity of client agencies to check for waste, fraud and abuse is compromised.
- Automated audits applied to adjuster spending decisions, vendor invoices, and medical bills.

The current claims system is very functionally limited to introduce subtle audit checks. The medical bill review vendor, *Corvel*, likely does not have the intensive automated audit checks to uncover all cases of medical provider fraud. The Office of Risk Management does not engage any other outside firm to perform automated audits.

- Adjuster training and supervisor support for investigations of claims. Adjuster caseloads at the Office of Risk Management appear to be very high. The project team has not evidence of any on-going supervisory interaction or formal training program to support aggressive review of claims for waste, fraud and abuse. Given as new adjusters are not provided any formal training in claims management, this form of defense has probably weakened in recent years.
- Double-checking and detailed pre-authorization reviews of spending decisions.

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- Based on interviews completed to date, the amount of this kind of oversight has probably increased in recent years.
- Organizational boundaries within Office of Risk Management to discourage collusion among staff.

Proposed Performance Benchmarks:

- Top-level commitment to root out waste, fraud and abuse.
- Timely and accurate claims and expenditure reports provided at appropriate detail to client agency officials.
- Automated audits applied to adjuster spending decisions, vendor invoices, and medical bills, provided within the major software (claims and medical bill review) or by a specialist vendor.
- Adjuster training and supervisor support for investigations of claims
- Double checking and detailed pre-authorization reviews of spending decisions..
- Organizational boundaries within Office of Risk Management to discourage collusion.
- Ratio of referrals to fraud investigation vs, successful outcomes.

Actuarial Soundness

Reference in Office of Risk Management Strategic Plan: *Administrative Program Objective I.1 page 126-129*

Summary: Actuarial soundness has not been accepted as a viable pursuit. There are a number of reasons for this. The former State Risk Director favored a phased-in approach with actuarial soundness becoming an objective for the next premium year.

Proposed Performance Benchmarks: TBD

Premium Allocation

Reference in Office of Risk Management Strategic Plan: *Administrative Program Objective I. pp. 126-129*

Summary: The Office of Risk Management has an implicit benchmark that is ability to fully allocate out all premium costs in a non-controversial manner. Several key benchmarks related to agency response to premiums are not included in Office of Risk Management's approach.

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ORM uses a premium setting and allocation method that works in simplified summary as follows. The state's actuarial consultants establish an estimate of the total claims costs for incidents that are expected to be incurred in the next fiscal year. This is a statewide estimate. Next, for each line of exposure the Office of Risk Management decides how much to allocate the loss estimate on the basis of underlying exposure, such as number of personnel, and how much to allocate on the basis of an agency's share of paid and incurred losses for the pertinent line of exposure totaled over the prior five years. The Office of Risk Management then divides up all of the losses among the pertinent agencies and creates premium "bills." During budgetary review the total, statewide amount of premium might be adjusted to reflect budgetary constraints, in which case the Office of Risk Management adjusts proportionately each of the premium bills.

It appears that some lines of exposure are not allocated out, for instance road hazards, and that the cost of administration (i.e., the Office of Risk Management's staffing and related costs) are also not allocated out. Ensuring complete, accurate and timely collection of exposure data and maintaining an up-to-date organization scheme for reporting and allocation purposes is a constant, time-consuming effort (as reflected in *Admin Program Objective I.1, pp 126-129*).

The project team was given a brief description of how *Corporate Systems* software is used to support the process of maintaining agency identities and information, storing information about underlying exposures and lost history, computing the allocations, and creating premium bills.

The project team has come to two tentative findings regarding the methodology. This methodology has the benefit of allowing for the full cost of losses to be allocated with relative ease. This may be particularly helpful for agencies who may use their premium allocation to add to federal grants and or to base user fees on the full cost of operations. On the other hand, given widely accepted risk management practices in the United States, the methodology fails in two important respects, by obscuring the relationship between an agency's loss experience and its premium, and in not providing a credible financial incentive to agencies to reduce losses. The problem can be highlighted by hypothesizing a universe of two agencies, both with employees and insurance losses. On the personnel side, every staff increase or reduction will be reflected immediately on the budgetary expenditures of the agency making the changes. A staffing change by one agency does not affect the other's budget. However, the Office of Risk Management's method of allocating premiums is only indirectly linked to the loss experience of an agency. It is likely very difficult, if not practically impossible, for an agency to compare premium bills for successive years and interpret how its loss experience accounts for a change in the billed amount.

In addition, the methodology for all practical purposes removes a financial incentive for an agency to contain its losses. The Governor cannot credibly say to agency heads, "If you reduce your incidents and the cost of claims by a significant amount in the next few months, you will be rewarded with lower premiums." Any agency which does invest in loss prevention and successfully reduces incidents and claims costs may in fact find that its premiums have been increased. Any agency head whose expected tenure is less than several years has really no financial incentive to improve her or his claims experience. This is ironic since claims reduction campaigns often can have very dramatic results within months.

Recommendations: Premium "bills" should include a schedule showing how losses incurred by the agency can or have influenced premium. Secondly, a new allocation method should be created to ensure that near term results clearly drive some or all of premium

Proposed Performance Benchmarks:

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- Allocation of all total premium costs are developed for agencies
- Allocation methodology permits agencies to see link between claims experience and premium
- Allocation methodology incentives agencies to reduce claims costs and incident frequency

Staffing

Reference in Office of Risk Management Strategic Plan: *(no explicit reference found)*

Summary: Staffing levels overall are considered grossly inadequate. The overall staff size at Office of Risk Management is suggestive of an adequate investment in staff. Efforts should be directed to determine the adequacy of staff deployment, the ability of technology to support essential staff functions, and the degree of training provided to staff. There appears to be no training program for adjusters. We were told that in prior years Office of Risk Management encouraged employees to take a series of correspondence courses provided by the American Educational Institute. In prior years, new employees enrolled in a two- or three-week introduction to claims course run by the Southern Farm Bureau. Diary use training was conducted about five years ago. Presently, we understand that new claims adjusters are given a week of peer training prior to being assigned claims on their own.

Recommendation: Re-introduce introductory training for claims adjusters. Review the training requirements of all current employees. Develop departmental employee orientation programs. Consider available provider and vendor training which though high-level and specifically focused is without additional costs. Determine a yearly training budget in terms of percentage of available time to be spent in training. Institutionalize OJT training by requiring a set weekly or monthly amount of OJT training and including results in Monthly Reports. Consider use of Pictorial programs in essential training areas. Review industry periodicals to insure training is maximized and that reading material is made available throughout the Office of Risk Management. Include individual knowledge and skills improvement in performance measurement objectives. Consider a special project team to study feasibility of providing increased levels of tuition reimbursement to staff. Consider easing tight restrictions on types of education considered for tuition reimbursement placing value on benefit of general education topics.

Proposed Performance Benchmarks: *TBD*

Loss Cost Containment

Reference in Office of Risk Management Strategic Plan: *Administrative Program Objectives I.1, page 127, and II.2, III.1, III.2 pp. 137-141 (Subrogation) and Claims Program Objective I.1, page 142, page 143 (Second Injury Fund), pp. 145-148 Litigation Management System), pp. 142 (Return to Work Program).*

Summary: The Office of Risk Management's Strategic Plan includes some performance benchmarks for this issue. Performance measurement will be made much easier with a new integrated risk management information system that allows for key measurements, such as duration of disability for workers' compensation claimants and vendor costs versus in-house staff costs.

Proposed Performance Benchmarks: *TBD*

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Reference in Office of Risk Management Strategic Plan: *Administrative Program Objective II.1, pp. 133-135, pp. 136-137*

Summary: Traditionally, loss prevention programs have been unable to quantify deliverables in terms of losses actually prevented. This has limited funding to this area and increased the possibility that loss prevention will be deployed sub-optimally. Office of Risk Management actively engages in a wide variety of loss prevention activities. Efforts will be directed at measuring results at the client level.

Proposed Performance Benchmarks: *TBD*

Vendor Management

Summary: As budget controls increase, there is the opportunity to see the Office of Risk Management transfer traditional staff functions to vendors where cost controls are less stringent than with headcount control. Interviews suggest that the necessary use of rotational assignment lists results in a wide spectrum of quality being received. Measures of quality are lacking. Obtain total cost by vendor for prior three years. Develop benchmark costs and quality measures.

Reference in Office of Risk Management Strategic Plan: *(no explicit reference found)*

Proposed Performance Benchmarks: *TBD*

Claims Management System

Reference in Office of Risk Management Strategic Plan: *Administrative Program Objective I.1, page 130, Objective III.2 pp 141 (On-line Claims Reporting)*

Summary: The Office of Risk Management's performance benchmarks implicitly assume that the claims management system is fixed and not worthy of performance measurement. In order to comply with projected benchmarks, it will be necessary to significantly upgrade the functionality currently available.

The claims management system used by the Office of Risk Management is functionally and technologically obsolete. It was designed at a time in the 1980s when adjuster work tasks were fewer and simpler, data requirements were less and loss exposure was generally less volatile. Many self-administered corporations have converted to claims management systems that were designed in the 1990s to support the increasingly complex tasks of adjusting through more versatile software. The primary differences between the Office of Risk Management's current system and more up-to-date systems can be summarized in the following categories:

- workflow tools
- connectivity
- fraud and abuse detection

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- lower cost of maintenance

Proposed Performance Benchmarks: *TBD*

Workflow Tools

Summary: The prevailing standards of design for claims management systems marketed to organizations such as Office of Risk Management include a strong set of workflow management tools. These are features that enable the work to move much faster and easier, freeing up substantial amounts of adjuster time, providing for much easier supervisor oversight and encouraging agencies. The Attorney General's office and other participants assume appropriate work tasks. Examples of workflow tools are the following:

- **Imaging and Document/Workflow Management:** the creation and use of electronic images of documents, and the management of documents so that they can be searched, read, sent, printed, etc. Currently adjusters spend about an hour a day on photocopying. Supervisors cannot monitor response to correspondence. Multiple claim players needing access to essential claim file material rely on the single adjuster to copy and forward needed material. Clients lack access to file level activity.
- **Notes:** easy entry, revision, sharing and searching of notes on claims by all participants in a case. The current claims management system has a cumbersome notes function. This feature is not being used universally by all departments/units. The current function was designed as a diary system and is being used in some departments/units as a "work-around" electronic notes system. Most staff relies on dual paper/electronic notes as well as dual paper/electronic diaries.
- **Prompts and Alerts:** automatic generation of user notifications when certain conditions are met (such as a filing date is approaching).
- **Easy Inquiry:** ability to easily search and find specific items such as the status of a medical bill. One Office of Risk Management Claims Adjuster estimates that almost an hour a day is spent on labor-intensive look-ups responding to status inquiries.

Reference in Office of Risk Management Strategic Plan: *TBD*

Proposed Performance Benchmarks: *TBD*

Connectivity / Interfaces

Summary: No functioning electronic interface between the claims management system and the State's personnel/payroll systems, unemployment compensation system or other related systems seems to exist nor does there appear to be any client agency access to the Office of Risk Management claims system. These types of systems integration issues are fundamental elements in modern claims management systems. Aside from assuring a higher level of accuracy of data, system integration allows for a significant amount of the Office of Risk Management's work to be performed by other information systems and staff

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that are more competent to handle the task at hand. The voluminous bill review occurring on a daily basis in the workers' compensation department relies on multiple levels of repeat data entry to list and then pay bills.

Note: There is no interface with *Corvel's* bill review system and *Corporate System's* bill payment system. *Corvel* is accumulating a significant database useful and necessary to Office of Risk Management's future. This data is owned and managed by *Corvel*. Should the contract terminate with *Corvel*, this data, which is necessary to detect duplicate payments, conduct trend analysis, etc., could be lost.

Reference in Office of Risk Management Strategic Plan: *TBD*

Proposed Performance Benchmarks: *TBD*

Fraud and Abuse Detection

Summary: The current claims management system has not been designed with the intent of discovering adjuster, claimant or vendor fraud. Detection usually involves recognizing patterns, such as an usual number of small expenditures for a certain purpose, or isolating very unusual high dollar value items, or simply taking notice of usual events such as reopening a closed claim. The current system lacks a facility for a non-technician in the Office of Risk Management to enter in by itself a complex set of "rules" that would provide for alerts when certain events occur, or to design a special report. Fraud detection systems are now reasonably priced and available for installation with any competent claims management system.

Reference in Office of Risk Management Strategic Plan: *TBD*

Proposed Performance Benchmarks: *TBD*

Lower Cost of Maintenance

Summary: The annual maintenance contract to *Corporate Systems* is \$300,000 to \$400,000. The amount paid to the Office of Information Services (OIS) exceeds this amount. Based on the size of the Office of Risk Management, the claims management system and other modules provided by *Corporate Systems* appears to be priced relatively high considering the apparent minimal value being derived.

An Internet-based claims reporting module has recently been introduced for workers' compensation. A module is also available to support auto liability but is undergoing some minor modifications. Current system functionality supporting workers' compensation processes is extremely weak. There does not seem to be complete cohesion within the claims management module thus preventing substantially all of the benefits of on-line reporting (e.g., error reduction and automatic flow into the claims management system). The new technology initiatives are commendable but do not make up for the obsolete nature of the overall system..

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Recommendation: The Office of Risk Management should seek to significantly upgrade the functionality and level of integration within its risk management system. It should undertake a tool selection process to identify a proven Internet-based risk management system tailored to the needs of organizations such as the Office of Risk Management. Such a system may cost \$1 million or more in licenses, installation and data conversion costs. However, lower maintenance costs and substantial improvements in adjuster productivity will result in a very high return on investment. This tool selection process should only be undertaken following a comprehensive requirements definition activity involving representation from all departments/units within the Office of Risk Management. Data exchange needs should also be carefully evaluated.

Proposed Performance Benchmarks: There is not a single and widely used set of performance benchmarks for a property and casualty claims system today. A provisional set of benchmarks can be derived from the types of performance standards imposed by organizations such as Office of Risk Management who are acquiring claims systems today. (There are about 250 organizations of similar size of the Office of Risk Management who administer property and casualty claims in-house, and almost all of these organizations use a claims management system provided by a vendor). The performance standards in the Office of Risk Management's Strategic Plan are not usable for this purpose. An incomplete list of benchmarks includes:

- A comprehensive electronic rolodex maintains records on all parties associated with claims, which can be easily searched and analyzed by adjusters and defense counsel to plan claims strategy
- Vendor invoices (legal, case management, investigators, etc.) are submitted and audited automatically prior to adjuster review. Both medical and vendor invoices are archived at detail transaction level for more detailed analysis.
- Claims data integrated with safety and accident databases.
- Claims system interfaced with personnel/payroll system
- Multiple claims opened on screen and worked on simultaneously
- Notes from all participants integrated into a single note pad.



Comparative Information

The following information is submitted to support comparisons and benchmarking of the Office of Risk Management's operations with other states. The report into nine sections: Information Technology (IT); Internal Fraud; Organization and Governance; Risk assessment and Loss Prevention; Insurance Purchasing; Inter-Agency Premium Allocation; Claims Management; and Cost of Risk.

Information was collected from other risk management entities, risk and insurance industry sources and professional contacts. Risk management executives of the states of Arkansas, Arizona, Connecticut, Georgia, Kentucky and Mississippi were interviewed by face-to-face visits, by telephone and via on-line surveys. Comparison reports prepared by the State Risk and Insurance Management Association (STRIMA) were also evaluated. Louisiana's data is included for comparative purposes.

Entities	#Employees
AR	48,750
AZ	60,000
CT	50,000
GA	130,000
KY	40,000
LA	118,000
MS	38,000

Informal interviews were conducted with approximately twelve other public entity risk managers, including persons in charge of municipal risk management, governmental self-insurance risk pools and association directors. No attempt was made to make the entities equivalent, i.e., some may include higher education and acute care hospitals while others may not.

Benchmarks of preferred performance have been developed from the following sources: surveys of public risk management entities to discover best performers; risk and insurance literature including available databases; and from professional practice.

TERMINOLOGY

It is useful at the outset to distinguish comparisons (in general) from benchmarks. Generally, comparison means placing any aspect of the Office of Risk Management's operations against comparable operations



and noting the differences and similarities. Often, differences do not mean that one entity is better or worse in performance. For example, the height of individuals does not imply relative health status, wealth or wisdom. Likewise, the Office of Risk Management and some other state risk management departments have centralized internal Claims Departments, but Mississippi and Connecticut contract their workers' compensation claims operations to outside TPAs. While the comparison is useful, it does not imply that one approach is better than the other.

When the term benchmark is used, it denotes a specific standard, goal or best practice which can enable the reader to rank the relative performance of the Office of Risk Management. A special effort is made make clear exactly what are the benchmarks, how they are created and how strongly the risk and insurance community in the United States is supporting them. The only way a comparison points clearly to improved performance is through the application of a benchmark.

An example of a benchmark is claims closure rate, i.e., the speed at which claims are closed. The risk and insurance industry strongly believes that a fast (i.e., high) closure rate is superior to a low or slow closure rate. There is evidence that the longer a claim remains open, regardless of the merits of the claim, the final claims cost goes up significantly. In the case of claims closure rate, the specific target may be subject to judgment call. The best source of these benchmark targets is the judgment of seasoned claims professionals. Another source is a collection of entities similar to the Office of Risk Management. The entity with the fastest closure rate is the performer to be emulated.

Organization and Governance

In our surveys of state risk management executives we collected the following information:

1. All risk management (RM) departments centrally *coordinate the risk management* all state agencies, except for CT and MS, where some agencies perform some risk management autonomously.
2. All RM departments except for AR perform a *centralized risk management budgeting process* for all agencies.
3. ORM provides an adequate comprehensive, centralized risk assessment, budgeting and claims coordination function.

INTERNAL FRAUD

This issue focuses on any misuse of funds for private gain undertaken entirely or with the assistance of (1) risk management department employees; (2) claims staff members whether employed internally or by contracted third party administrators; and (3) state agency personnel such as those involved in reporting, investigating or defending claims.

Interviews with risk managers revealed an almost universal concern about the risk of internal fraud. In a number of instances, risk managers reported that instances of fraud had occurred.



Risk Assessment and Loss Prevention

In our surveys of state risk management executives, we collected information of five risk assessment practices:

1. *In performing risk assessment, risk management departments share the work with outside vendors except for KY, where all risk assessment is performed internally. Also, AR does not report sharing work with outside vendors.*
2. *Three respondents (CT, LA and MS) answered affirmatively to the following: "The annual insurance and claims budget is explicitly driven by an annual risk assessment."*
3. *Two respondents (AZ and LA) answered affirmatively to the following: "There is an annual inventory of exposures (property, employees, etc.) that results in a formal report."*
4. *Three respondents (LA, MS and Las Vegas) answered affirmatively to the following: "There is an annual projection of losses to arise out of the forthcoming fiscal year"*
5. *Four respondents (AR, GA, MA and LA) answered affirmatively to the following: "There is an annual loss development analysis of prior year exposures and losses."*

In our professional judgment, the practices summarized 2, 3, 4 and 5 are in fact best practices. Office of Risk Management performs positively in each of these areas and therefore is adhering to best practice within the risk and insurance field. (Note: for item 1, we do not believe there is a generally preferred allocation of risk assessment work among internal and external resources.)

Agency level programs

In our professional judgment, every state should have a set of quantitative loss prevention goals and each major agency should have its own set as well.

In our professional judgment, agencies with an annual loss exposure of at least \$500,000 should have at the very least a safety coordinator, a safety committee with an annual plan and regular meetings, and an internally generated loss prevention report generated at least annually. We were not able in the course of this engagement to determine if these minimum benchmarks are being met in Louisiana or in any of the other surveyed states.

Cost of Risk Allocation to Agencies

We investigated how states allocated claims costs, premiums, and administrative costs to agencies. Four RM departments (AR, GA, LA, and MS) responded affirmatively to: *"There is a policy to allocated all or virtually all claims (or insurance) costs to the responsible agencies."* AZ, while not agreeing with that

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statement, did report that claims costs are assigned to agencies, thus I would say the true affirmative number is six.

We found no RM department that assigns costs entirely on the basis of exposure.

AZ, LA and MS are the only RM departments that assign (self-insured) administrative costs to agencies.

AZ, CT, GA and KY do not allocate all claims costs to agencies. Exclusions include:

- Liability claim costs are capped at \$100,000. We include claim costs, insurance costs and administrative costs in a cost allocation formula. (AZ)
- Premiums for Excess coverage for Workers' Compensation and Property (GA)
- Premium costs are only allocated to those agencies who have funds other than General Funds. Property claims below the deductible of \$250,000 are the only claims that are allocated. (CT)
- For liability issues it is mostly allocated. For property coverages we use a self-insurance fund, that assesses premiums based on loss experiences (KY)

We asked if the state's allocation of "premiums" to agencies effectively include incentives to lower claims frequency and claims severity. We learned that the allocation methods in use do not provide real incentives for agencies to reduce losses. In our professional judgment, for a premium allocation system to be used as an effective incentive to client agencies, it needs to provide for a significant increase in allocation shortly after the major rise of losses and a like reduction in allocations with major reduction in losses. Based out our understanding of Office of Risk Management's allocation system (and that of other states), this incentive does not exist. Office of Risk Management fails with regard to this benchmark.

This gap is particularly of concern for state agencies with large loss exposures. Our professional judgment is based in part on the fact that private companies with insurance exposures of several millions of dollars or more are almost always structuring their insurance plans to ensure a fast return of investment of loss prevention and claims handling success.

Insurance purchasing

We asked among other states: *"Does the state purchase insurance and, if so, what kind?" "What is the bid procedure for purchasing insurance "What are the risk retention levels?" How are these set?" "Are advisors used?"*

The following tables reports the insurance coverage used by line of exposure:

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Lines of Coverage	AR	AZ	CT	GA	KY	LA	MS
Airport and Aviation Liability	1	1	1	1	1	1	1
Automobile Liability	1		1		1		
Automobile Physical Damage	1		1				
Boiler and Machinery	1	1	1	1	1	1	
Bond			1	1	1	1	
Bridge Property Damage					1	1	
Builder's Risk	1				1	1	
Commercial General Liability			1		1		
Crime	1	1	1	1	1		
Flood/Earthquake Insurance	1		1		1		
Medical Malpractice Liability	1		1		1		
Miscellaneous Tort Liability					1		
Personal Injury + Advertising Liability					1		
Property (Blanket Property)	1		1	1	1		
Road and Bridge Hazards							
Uninsured Tort Liability				1			1
Wet Marine					1		
Workers Comp - Maritime					1		
Workers Comp & Emp. Liability				1	1		
Other		1				1	
Total lines insured	9	4	10	7	16	6	2

Claims Management

Four entities (AZ, GA, KY, and LA) handle claims with one centralized, internal claims staff. The rest use a variety of combinations of claims staffs including TPAs.

For claims recovery, one RM department (AZ) uses a special internal unit to handle. Most of the others appear to have adjusters on the claim handle most or all of claims recovery (subro, second injury fund, social security offset, etc.)

Only one RM department (AR) has its own internal legal department to coordinate defense. Most of the others use some combination of attorney general and/or contract counsel for defense, except for CT and MS that have their TPAs manage legal defense.

Temporary modified duty should be a standard element in a workers' compensation. Our benchmark target is for at least 25% of lost time claimants to return to work through modified duty. This finding folds into adequacy of a Return-to-Work program.

INFORMATION TECHNOLOGY

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Information technology (IT) is addressed not because it is most important but because its impact on the ability of the Office of Risk Management in achieving numerous benchmark targets of performance is usually important or critical. The Office Risk Management relies almost entirely on software provided by *Corporate Systems* for premium generation, claims management and other related functions. *Corporate Systems* is one of the largest vendors of software to the risk and insurance field.

In interviews with public sector risk managers, a wide range of experiences in managing the investment in risk management information systems were identified. Some entities use software that is mostly or entirely developed internally, while others depend on software packages purchased from vendors. Risk managers who contract with outside TPAs were typically not well-informed about the competencies of the software used by their TPAs.

Comparative data about these IT investments and IT benchmarks are included under Internal Fraud, Inter-agency Premium Allocation and Claims. No crisp, overall benchmark exists for risk management information systems against which to measure the Office of Risk Management's current systems. However, the Office of Risk Management's current system scores very poorly against individual benchmarks in all of the major uses of IT. Therefore, there is an inescapable conclusion that the Office of Risk Management's current IT investment is deficient. One way to characterize the deficiency is to estimate that the current systems are state-of-the-art of about 1990 and, since then, there have been several technology revolutions.

Computers are providing the means to assign to individual adjusters and other workers a high number of claims processing without having to interact face-to-face with supervisors and co-workers, thus creating a greater opportunity for individuals to attempt to misuse funds. There are five key features of modern claims systems which significantly reduce the risk of fraud being undetected. New claims systems (such as that which Georgia acquired recently and which Arizona is soon to install) contain these features. These features are incorporated to deter would-be fraudsters. The current system used by the Office of Risk Management fails to meet any of these benchmarks.

Top Five Claims System Features to Combat Internal Fraud

Feature	<i>in current system?</i>
Automatic selection of claims for special audits, including option to randomly select.	NO
Supervisor alerted automatically when certain conditions are met or upon request of staff member.	NO
Automated profiling of a claim at any time in its lifetime, to prompt special review and/or intervention.	NO
Alerts to agencies of unusual claims activity.	NO
Efficient document management so no document is lost and version control is assured	NO

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Loss Prevention Information systems

We asked if any states use specialized software for loss prevention. Currently, no state uses specialized software for loss prevention. Loss prevention for an entity the size of Louisiana is an important undertaking that calls for IT support in areas such as recording investigations, guiding self-audits of agencies and scheduling loss prevention field visits. Louisiana does not meet this benchmark.

Claims Management System

Item	Claims System Feature Availability	Yes
1	All claims adjusters have constant access to the claims system.	7 of 8
2	Agencies can directly access the claims system to enter new claims.	None
3	New claims can be submitted via the Internet.	3 of 8
4	Agencies can directly access the claims system to make inquiries.	1 of 8
5	Agencies can enter notes into the claims system.	None
6	Defense counsel has direct access to the claims system.	2 of 8
7	Medical invoices are accepted electronically.	1 of 8
8	System provides for easy ad hoc analysis and reporting without depending on IT staff.	3 of 8

Each item should be considered major benchmarks for effective claims systems. The Office of Risk Management is successful in meeting benchmark item 1, a small percentage of item 3 but none of the remaining benchmarks.